

**REPORT OF THE AUDIT OF THE  
HARLAN COUNTY  
CLERK**

**For The Year Ended  
December 31, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE HARLAN COUNTY CLERK**

**For The Year Ended  
December 31, 2009**

The Auditor of Public Accounts has completed the Harlan County Clerk's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees increased by \$28,646 from the prior year, resulting in excess fees of \$76,585 as of December 31, 2009. Revenues increased by \$149,999 from the prior year and expenditures increased by \$121,353.

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#### **Report Comment:**

- The County Clerk's Office Lacks Adequate Segregation Of Duties Over The Reconciliation Process

#### **Deposits:**

The County Clerk's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive  
The Honorable Wanda Clem, Harlan County Clerk  
Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Harlan County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 26, 2010 on our consideration of the Harlan County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Joseph A. Grieshop, Harlan County Judge/Executive  
The Honorable Wanda Clem, Harlan County Clerk  
Members of the Harlan County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties Over The Reconciliation Process

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Harlan County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

July 26, 2010



HARLAN COUNTY  
WANDA CLEM, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

State Fees For Services	\$	11,860	
Local Records Grant			12,380
Fiscal Court			16,947
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	858,188	
Usage Tax		1,535,729	
Tangible Personal Property Tax		1,564,767	
Temporary Tags			
Title/Notary		7,552	
Other-			
Fish and Game Licenses		3,141	
Marriage Licenses		9,763	
Candidate Filing Fees		1,150	
Deed Transfer Tax		20,344	
Delinquent Tax		859,058	4,859,692
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		39,435	
Real Estate Mortgages		10,689	
Chattel Mortgages and Financing Statements		64,105	
Powers of Attorney		2,621	
All Other Recordings		45,562	
Charges for Other Services-			
Candidate Filing Fees		1,029	
Copywork		21,473	
Other:			
Postage		1,527	
Overpayments		31,904	
Current Year Returned Check And Clerk Fees		1,844	220,189
Interest Earned			342
Total Revenues			5,121,410

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY  
WANDA CLEM, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2009  
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 604,519

Usage Tax 1,488,235

Tangible Personal Property Tax 617,531

Licenses, Taxes, and Fees-

Fish and Game Licenses 3,013

Delinquent Tax 75,073

Legal Process Tax 21,509

Affordable Housing Trust 24,540 \$ 2,834,420

Payments to Fiscal Court:

Tangible Personal Property Tax 251,172

Delinquent Tax 189,434

Deed Transfer Tax 19,326 459,932

Payments to Other Districts:

Tangible Personal Property Tax 633,035

Delinquent Tax 324,837 957,872

Payments to Sheriff

53,576

Payments to County Attorney

126,540

Operating Expenditures:

Personnel Services-

Deputies' Salaries 280,202

Employee Benefits-

Employer's Share Social Security 27,150

Employer's Share Retirement 50,664

Employer's Paid Health Insurance 36,238

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY  
WANDA CLEM, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2009  
(Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Contracted Services-			
Maintenance Agreement	\$	28,640	
Telephone Expense		3,039	
Local Records Grant Expenditures		12,380	
Materials and Supplies-			
Office Supplies		26,353	
Other Charges-			
Conventions and Travel		4,786	
Dues		1,080	
Postage		5,095	
Refunds		40,205	
Miscellaneous		120	
Overpayments		500	
Returned Checks		4,269	
		<u>4,269</u>	\$ 520,721
Total Expenditures			<u>\$ 4,953,061</u>
Net Revenues			168,349
Less: Statutory Maximum			<u>84,636</u>
Excess Fees			83,713
Expense Allowance		3,600	
Training Incentive Benefit		<u>3,528</u>	<u>7,128</u>
Excess Fees Due County for 2009			76,585
Payments to Fiscal Court - February 9, 2010			<u>75,000</u>
Balance Due Fiscal Court at Completion of Audit *			<u><u>\$ 1,585</u></u>

\*This was paid on July 26, 2010.

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for services
- Reimbursements for 2009 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HARLAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2009  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.17 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Harlan County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Harlan County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

HARLAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2009  
(Continued)

Note 4. Bond Account

On November 27, 2006, Belk Department Store provided a \$1,000 bond to the County Clerk in accordance with KRS 365.410 to 365.480 to conduct a "Going Out Of Business" sale. This bond is to be held by the County Clerk for three years from the final date of the sale as filed and then surrendered in accordance with KRS 365.440. The County Clerk deposited the bond in a separate bank account. As of December 31, 2008, the balance of the bond was \$1,048. During the calendar year 2009, the account earned \$4 of interest, resulting in an ending balance of \$1,052 as of December 31, 2009. On January 2, 2010, the County Clerk issued a check to Belk's Department Store for \$1,000. On February 5, 2010, the bank account was closed by transferring \$52 to the 2010 official fee account.

Note 5. Local Records Grant

- A. The County Clerk received grant #AY1003LR02 from the Department of Library and Archives. The grant amount was \$10,380 and the grant period is August 3, 2009 to December 31, 2010. The purpose of the grant is to provide funding for the preservation of marriage license books and to purchase a scanner. During the calendar year, the County Clerk spent \$6,450 leaving a balance of \$3,930 as of December 31, 2009.
- B. The County Clerk received grant #AY1003LR03 from the Department of Library and Archives. The amount of the grant was \$13,500 and the grant period is August 3, 2009 to December 31, 2010. The purpose of the grant is to provide funding for salary for the preservation of marriage license books and to back-scan and index 101 marriage books dating from 1933-2009. During the calendar year the County Clerk received \$13,500 and spent \$5,930 leaving a fund balance of \$7,570 as of December 31, 2009.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive  
The Honorable Wanda Clem, Harlan County Clerk  
Members of the Harlan County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Harlan County Clerk for the year ended December 31, 2009 and have issued our report thereon dated July 26, 2010. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Harlan County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation to be a material weakness.

- The County Clerk's Office Lacks Adequate Segregation Of Duties Over The Reconciliation Process



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Harlan County Clerk's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Harlan County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Harlan County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

July 26, 2010

COMMENT AND RECOMMENDATION



HARLAN COUNTY  
WANDA CLEM, COUNTY CLERK  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2009

INTERNAL CONTROL - MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties Over The Reconciliation Process

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The County Clerk's office has a lack of adequate segregation of duties over the reconciliation process. The County Clerk has an in-house bookkeeper and an off-site bookkeeper to perform bank reconciliations. The in-house bookkeeper prepares the bank reconciliation, collects receipts, prepares checks, and prepares monthly, quarterly and annual reports. Although the in-house bookkeeper's bank reconciliations have documentation of a review, no documented compensating controls were in place to offset the following deficiency:

- All expenditures were recorded; however ad valorem payments of \$107,615 were posted to the wrong category.
- The bank reconciliations of the in-house bookkeeper and off-site bookkeeper did not agree. There was one check which had been voided on the in-house bookkeeper's reconciliation but was still included on the off-site bookkeeper's bank reconciliation.

We recommend the County Clerk implement the following compensating controls to offset these deficiencies such as:

- The County Clerk could examine checks written and compare to the monthly reports and other supporting documentation. This could be documented by initializing the reports and other supporting documentation. This review should be documented on the weekly or monthly report.
- The County Clerk could review the bank reconciliations prepared by the in-house and off-site bookkeeper for any inconsistencies. Any differences should be reconciled. The County Clerk could document this review by initializing both bank reconciliations and the balance in the checkbook.

*County Clerk Response: I have examined and compared the bank reconciliation and monthly reports. I also made an error and didn't catch the mistake. In the future, I will review both the in-house and off-site bookkeeper. I will sign and date the document.*

